

Federal Family Education Loan Program

Federal Consolidation Loans

Questions and Answers

1. What Is Consolidation?

Consolidation allows borrowers to combine several types of federal education loans with varying repayment terms and payments into a single loan with one payment. The consolidation process pays off the loans to be consolidated and creates a new loan in the amount of the loans that were paid. Borrowers can consolidate one loan, or a combination of some or all of their eligible educational loans.

2. What Loans Are Eligible For Consolidation?

- Subsidized Federal Stafford Loans
- Direct Subsidized Stafford Loans
- Unsubsidized and Non-subsidized Federal Stafford Loans
- Direct Unsubsidized Stafford Loans
- Federal Supplemental Loans for Students
- Federal Perkins Loans
- Health Professions Student Loans/HPSL, including Loans for Disadvantaged Students
- Health Educational Assistance Loans/HEAL
- Federal Insured Student Loans/FISL
- Federal PLUS (Parent) Loans/PLUS
- Direct PLUS Loans
- Subsidized Federal Consolidation Loans
- Direct Subsidized Consolidation Loans
- Unsubsidized Federal Consolidation Loans
- Direct Unsubsidized Consolidation Loans, including Direct PLUS Consolidation Loans
- Federal Nursing Loans/NSL

3. What Is The Interest Rate For A Federal Consolidation Loan?

Federal Consolidation Loan interest rate is set by federal law. It is currently a fixed rate and remains the same for the term of your loan. The interest rate is calculated based on the weighted average of the interest rates on your loans to be consolidated, rounded up to the next higher one-eighth of one percent, not to exceed 8.25%.

4. How Is The Weighted Average Calculated?

Step 1: Multiply the outstanding balance of each loan to be consolidated by the loan's current fixed or variable interest rate. Total the resulting amounts.

Example: Loans are \$18,500, \$18,500, \$18,500, \$18,500 totaling \$74,000
Interest Rates are 4.86%, 4.86%, 3.46% and 3.46%

$$\begin{array}{rcl}
 \$18,500 & \times & .0486 \text{ (4.86\%)} = \$ 899 \\
 \$18,500 & \times & .0486 \text{ (4.86\%)} = \$ 899 \\
 \$18,500 & \times & .0346 \text{ (3.46\%)} = \$ 640 \\
 \underline{\$18,500} & \times & .0346 \text{ (3.46\%)} = \underline{\$ 640} \\
 \$74,000 & & \$3,078
 \end{array}$$

Step 2: Divide the sum by the total balance being consolidated.

Example: $\$899 + \$899 + \$640 + \$640 = \$3,078$
 $\$3,078 \text{ divided by } \$74,000 = .04159 \text{ or } 4.159\%$

Step 3: Round the results to the nearest higher one-eighth of one percent (not to exceed 8.25%)

Example: 4.159% rounded to 4.25%

5. When Can I Consolidate?

You can consolidate loans:

- during your grace period
- that have entered repayment
- during periods of deferment
- during periods of forbearance
- possibly, if you are in default, as long as the default is not subject to wage garnishment or judgment.

6. With What Lender Do I Consolidate?

- If a borrower has FFELP loans with multiple lenders, a Federal Consolidation Loan can be requested from any participating consolidation lender. The consolidation lender does not have to be a holder of any of the borrower's loans.
- A borrower whose FFELP loans are held by a single lender must request his/her Federal Consolidation Loan from that lender.

Not sure who holds your student loans? You can find information on your student loans online with the National Student Loan Database System at www.nslds.gov or the National Student Loan Clearinghouse Loan Locator service at www.studentclearinghouse.org.

7. If My Option Is To Consolidate With Any Participating Lender, How Do I Make My Selection?

- Check with your school.
- Check with the guarantor for a listing of consolidation lenders.
- REMEMBER, the variables in a consolidation loan are borrower benefits (discounts).

8. What Are The Repayment Options?

The borrower may choose one of the following repayment options.

- **Standard Payments** - Payments are the same amount each month, except for the final payment, which may be slightly smaller or larger. It is the most common and least expensive repayment option.
- **Graduated Payments** - Payments start out lower and increase in steps over time. The payment amount in any one step may not be more than three times the amount of any other step.
- **Income-sensitive Payments** - Payments are set annually and adjust up or down based on your expected total monthly gross income.
- **Extended Payments** - Allows borrowers with FFELP loans in excess of \$30,000 to repay over a 25-year period. Extended repayment only impacts Consolidation Loans of at least \$30,000 and up to \$39,999; as soon as a borrower owes \$40,000, they (he/she) is automatically given 25 years.

Select a repayment plan that is based on your financial situation. Note that once you have selected a repayment plan, you can change to another repayment option without penalties; however, some restrictions may be applicable.

9. What Is The Maximum Repayment Periods For Consolidation Loans[‡]

<u>Sum of Consolidation Loan Balance plus Balances of Other Education Loans</u>	<u>Maximum Repayment Period*</u>
Less than \$7,500	10 years
\$7,500 or more, but less than \$10,000	12 years
\$10,000 or more, but less than \$20,000	15 years
\$20,000 or more, but less than \$40,000**	20 years
\$40,000 or more, but less than \$60,000	25 years
\$60,000 or more	30 years

[‡]Common Manual August 2003

*Maximum repayment periods exclude authorized periods of deferment and forbearance. [§682.209(h)(2) and (h)(3)]

**A "new borrower" on or after October 7, 1998, with an outstanding balance of principal and interest in FFELP loans totaling more than \$30,000, may select an extended repayment schedule that allows for a repayment period not to exceed 25 years. [§682.209(a)(7)(ix)]

10. What Are The Benefits With A Federal Consolidation Loan?

The benefits of loan consolidation include but are not limited to:

Lower monthly payments - Lower monthly payments can also lower your debt-to-income ratio.

Single monthly payment - One payment per month instead of multiple loan payments with different due dates.

Fixed interest rate - Historically low interest rates can lock in a low, fixed interest rate. Consolidating during your grace period can also save money.

Zero cost/zero obligation to apply - No cost and no credit check required.

Repayment plans - There are four repayment plans to choose from based on your financial situation. You can change to another repayment plan with no financial penalties.

11. What Are Cautions To Look At When Consolidating Loans?

Increased interest costs - Consolidating your student loans usually extends the repayment period and the amount of interest you will pay over the life of the loan. Ultimately, you could pay 30 to 40 percent more interest on your loan.

Higher interest rate - The "weighted average" of all the loans you are consolidating, rounded up to the nearest higher one-eighth of one percent, not to exceed 8.25%, is how the fixed interest rate is determined. This rate could be slightly higher than the current interest rate on your loans.

Fixed interest rate - Does not allow for future declines in interest rates. (Note: Current rules do not allow re-consolidation unless you have other eligible loans not previously included.)

12. Will I Lose My Michigan Students First Benefits?

If you choose to consolidate loans with a Michigan Students First benefit, you will lose the following benefits:

- 3% rebate of origination fee
 - ☐ Note: This benefit is only forfeited if you consolidate your loan(s) before they are sold to Michigan Higher Education Student Loan Authority (MHESLA).
- 0% rate eligibility after your first 36 months of on-time repayment.

13. Can I Add Additional Loans To My Federal Consolidation Loan?

Borrowers may add eligible loans received before the date of consolidation to an existing Federal Consolidation Loan. The loans must be added within 180 days of the date the Federal Consolidation Loan was made.

Reconsolidating Loans - You may consolidate an existing consolidation loan if you include another eligible loan in the new consolidation.

14. Can I Consolidate Private Student Loans?

Private (alternative) student loans cannot be included in a Federal Consolidation Loan. However, they can be used to calculate the maximum repayment period for your consolidation loan.

15. What Consolidation Loan Borrower Benefits Are Available?

- Rate discounts for on-time payments*
- Interest rate reduction for automatic payment*
- Tax benefits

*These vary depending on the consolidation lender, so shop around.

16. What Deferments Are Available?

Deferments: Postponement of Principal and Possibly Interest Payments
(Check with your Lender/Service for specific eligibility criteria).

FORM	DEFERMENT TYPE	TIME LIMIT	CONSOLIDATION LOANS	
			Borrower Consolidates Before 7/1/93	New Borrower 7/1/93
SCH	In School: Full-time	None	Yes	Yes
	In School: Half-time	None	Yes	Yes
EDU	Graduate Fellowship	None	Yes	Yes
	Rehabilitation Training	None	Yes	Yes
TDIS	Temporary Total Disability	3 Years	Yes	No
UNEM	Unemployment	2 Years	Yes	No
	Unemployment	3 Years	No	Yes
HRD	Economic Hardship	3 Years	No	Yes

Forbearance is another option to explore with your lender/service provider should the need arise to temporarily postpone a borrower's principal repayment.

17. What Are Some Of The Questions I Should Be Asking About Consolidation?

- Who is the consolidating lender sending me the information?
- Is the consolidating lender a Federal Family Education Loan Program or a Federal Direct Loan Program participant?
- Is there a credit check?
- Know the borrower benefits - any reductions in interest rates on loan consolidation - know any special provisions or restrictions for these benefits.
- When does the consolidating lender consider a loan late or past due - is there a grace period?
- WHO can help me (lender/servicer, guarantor, school) on comparing consolidation loan programs?

Ask questions and understand the answers. You, as a borrower, have access to a number of resources: school, guarantor, lender/servicer, financial planner, etc. Do your homework and get the FACTS before signing on the dotted line.

Specific to MHESLA Consolidation Policies:

1. Does MHESLA Do Spousal Consolidation?

No

2. Does MHESLA Consolidate In-School Status Loans?

Yes - see our Web site for more detail.

3. Does MHESLA Have A Consolidation Minimum?

Yes, \$200*

4. Does MHESLA Consolidate Defaulted Loans?

Yes

5. Does MHESLA Have An On-line Consolidation Application?

Yes at www.michigan.gov/mistudentaid

*There may be additional borrower benefits requiring different minimums.